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FISCAL IMPACT STATEMENT

LS 7622 | **NOTE PREPARED:** Jan 6, 2003
BILL NUMBER: HB 1930 | **BILL AMENDED:**

SUBJECT: EDGE Credits.

FIRST AUTHOR: Rep. Yount | **BILL STATUS:** As Introduced
FIRST SPONSOR:

FUNDS AFFECTED: X **GENERAL** | **IMPACT:** State
X **DEDICATED**
FEDERAL

Summary of Legislation: The bill requires that the average compensation paid by an applicant for an Economic Development for a Growing Economy (EDGE) Tax Credit that proposes to retain existing jobs exceed the lesser of the average county wage or the average state wage. The bill also reduces from 200 to 75 the number of employees the applicant must employ.

Effective Date: July 1, 2003.

Explanation of State Expenditures: The bill could potentially broaden eligibility and expand the applicant pool for EDGE credits relating to job retention projects. This may increase the number of applications for EDGE credits and the number of EDGE credits awarded annually, creating additional administrative demands on the Indiana Department of Commerce (IDOC). The IDOC provides administrative support to the EDGE Board. The Department should be able to meet these demands given its current budget and resources. The December 7, 2002, state staffing table indicates that the IDOC has 52 vacant full-time positions, including regional office positions.

Explanation of State Revenues: The bill changes the average compensation requirement for businesses seeking EDGE credits for job retention projects. The bill eliminates the current requirement that the average compensation paid by such a business be at least 5% greater than the average compensation paid to all employees in the county where the business is located. In lieu of the current requirement, the bill requires the average compensation to exceed the lesser of the average county wage in the county where the job retention project will be located or the average wage in the state. The bill also lowers the the employment requirement for businesses seeking EDGE credits for job retention from 200 employees in Indiana to 75 employees in Indiana. These changes could potentially increase the number of EDGE credits awarded for projects that lead to job retention. In addition, the bill changes the average wage standard to be considered by the EDGE Board in determining the EDGE credit amount for a business. Current law requires the EDGE Board to consider the amount by which a business's average wage exceeds the average wage in the county. The bill requires that the EDGE Board simply consider the average wage paid by the business. These changes could potentially increase the revenue loss from EDGE credits for job retention. However, the magnitude of this loss is indeterminable.

Background: Under current statute, businesses that (1) create new investment and jobs in Indiana or (2) undertake projects to retain existing jobs in Indiana are eligible for EDGE credits. As it applies to investment that creates new jobs, the EDGE Program is designed to provide a revenue-neutral incentive for businesses to create new investment and jobs in Indiana. Such businesses receive credits equal to the individual income taxes withheld for employees filling the newly created positions. Since revenue from these employees would not have been collected in the absence of the new development, the state does not incur a net loss by redistributing the incremental income tax revenue as tax credits to businesses. For job retention projects, no new revenue would be realized since no new jobs would be created. As a result, EDGE credits for job retention are paid from existing revenues, resulting in a net loss to the state equal to the amount of EDGE credits granted to businesses for job retention. However, if a business were to select a more profitable alternative project site and move out of Indiana, there could be an even greater loss of revenue from the reduction in individual (employee's) and corporate taxes.

EDGE credits may be taken against a taxpayer's Adjusted Gross Income Tax, Insurance Premiums Tax, or Financial Institutions Tax liabilities. The duration of the credit may not exceed ten taxable years. In 2001, the EDGE Board approved approximately $81.3 M in new credits (to be used over several years) for 14 projects. The projects are expected to create 5,570 new jobs with an annual payroll of approximately $382.1 M. From 1994 to 2001, EDGE credits have been approved for 86 projects. During those years, approximately $68.3 M in EDGE credits were made available, with the total amount of credits certified so far equal to about $42.5 M. Approximately $29.3 M in EDGE credits were available for approved projects in tax year 2002. The EDGE credit totals through 2002 apply only to EDGE credits for job creation projects. Revenue from the AGI Tax on corporations, the Insurance Premiums Tax, and the Financial Institutions Tax is distributed to the state General Fund. Eighty-six percent of the revenue from the AGI Tax on individuals is deposited in the state General Fund, and 14% of this revenue is deposited in the Property Tax Replacement Fund. Since the bill is effective July 1, 2003, it may be possible for the EDGE Board to award tax credits for tax year 2003.

Explanation of Local Expenditures:

Explanation of Local Revenues:

State Agencies Affected: Department of State Revenue, Indiana Department of Commerce, EDGE Board

Local Agencies Affected: **Information Sources:** Indiana Department of Commerce, *2001 EDGE Annual Report*, April 1, 2002.

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